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C O N F I D E N T I A L SECTION 01 OF 02 ATHENS 000365

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TAGS: [ENRG](#) [GR](#) [OIL](#)

SUBJECT: HELLENIC PETROLEUM'S MACEDONIA REFINERY: HAVE GUN,  
WILL DO BUSINESS

Classified By: Ambassador Charles P. Ries for Reasons 1.4 (b,d)

1. (C) Summary. Economic Counselor met February 3 with the former Commercial Director of Hellenic Petroleum's OKTA refinery in Macedonia, Anestis Papadopoulos, who worked in the plant from the time of HP's purchase in 1999 to late 2004. According to Papadopoulos, HP has invested over USD 220 million in modernizing OKTA, which processes over 800,000 metric tons of crude annually, 600,000 of which is sold in Macedonia and 200,000 in Kosovo. This comprises approximately 85% of Macedonia's domestic demand and up to 100% of Kosovo's demand.

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Plant Was a Mess, Financially and Physically  
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2. (C) According to Papadopoulos, HP found the plant in extremely poor condition, both physically and financially. Financially, the plant was on the verge of closing down, with the previous director telling Papadopoulos that he had just enough money to buy the padlock to lock the plant's doors. Its 1,400 employees were on long-term "forced vacation". Although the plant could "easily" operate with just 600 employees, Papadopoulos said, it today employs 1,100 as a result of its promise to the Government of Macedonia not to fire anyone. Those who left either retired or were given a good retirement package (usually worth approximately three years of salary). Physically, HP found the Soviet-era plant in a shambles and undertook a concerted effort to upgrade it, introducing expensive desulfurization technology in 2002 that Papadopoulos claimed brought the plant up to EU pollution standards. As a result of HP's upgrades, the plant is now an "efficient" producer of EU-standard diesel products.

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Contract Blues  
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3. (C) Although HP now makes a profit on the plant as a result of high oil prices, Papadopoulos said it could have made even more if the Macedonian government had fully implemented the purchase agreement. This gave HP a semi-monopolistic position in the Macedonian market for up to 10 years, during which time the Macedonian government would only license the sale of non-OKTA oil if the plant was unable to cover demand. Instead, within four to five months of the agreement being signed, Papadopoulos said, the GOM licensed other operators to sell oil products regardless of OKTA's production capacity. The GOM also did not fulfill its promise to give HP land for 30 petrol stations in exchange for HP's promise to build the stations. These actions exacerbated reported losses at the plant in its first two years of operation under HP. Papadopoulos conceded there are legitimate accounting issues related to crude costs that affected where HP realized its net income.

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Interesting Balkan Business Practices  
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4. (C) Papadopoulos said he loved working at OKTA, in part because of the creative business practices he encountered. He claimed that one of the first Macedonian purchasers of OKTA's product brought two huge bags of cash into his office, some of which had stains resembling blood. Papadopoulos said he quickly drafted an eight-point memo mainly emphasizing that purchasers had to pay for their purchases through HP's bank, not in person with Papadopoulos. Another time a disgruntled customer slammed a gun on Papadopoulos' desk, screaming "Now I hope you're ready to get down to real business." Papadopoulos said such stories were too much for his fiancée, who urged him to return to Greece. Ironically, although the fiancée's pleas had no effect, the change in the Greek government in early 2004 led to Papadopoulos' being replaced by someone more friendly with the New Democracy political machine.

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"Albanian" Minister Stops Pipeline to Kosovo  
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5. (C) Papadopoulos said HP had been thinking of building two additional pipelines from OKTA, one to south Serbia and

one to Kosovo. HP started construction of the latter pipe, but had to stop when plans were publicized that the pipeline would go through some predominantly ethnic Albanian villages.

According to Papadopoulos, a minister in the Macedonian government from the ethnic Albanian coalition party simply asked for too much money to grant right of way.

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Comment  
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16. (C) The story of HP's refinery in Macedonia may be illustrative of the Greek push into the Balkans. Drawn by the hope of much faster growth than in the domestic Greek economy, HP took a big chance on OKTA. Like many Greek companies of the time, it paid a premium for this hope, which only paid off when the price of energy jumped.  
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